



# **Nebraska Public Employees Retirement Systems**

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March 2003

To: State and County Plan Members

From: Anna J. Sullivan, Director  
Nebraska Public Employees Retirement Systems

We are pleased to present our 2003 Annual Investment Report for members of the State and County Employees' Retirement Plans and our voluntary Deferred Compensation Plan (DCP). Please read the report carefully this year. You will find some helpful tips to assist you with your investment decisions and details on the various investment funds for the 2002 calendar year.

We have had another challenging year in the stock market, with returns at year-end in negative territory once again. As you will find in the first section of our report, it is a good time to reevaluate your long-term goals, but at the same time, not to panic. There is additional material in the report this year to help you understand the impact of the "BEAR" market on your retirement plans.

For those of you who moved to the Cash Balance Benefit beginning in January of 2003, this will be your last "Annual Investment Report," unless of course, you participate in the State's voluntary Deferred Compensation Plan (DCP). You will continue to receive the Investment Report if you are a DCP member.

Our new Cash Balance members can expect a first ever "Annual Actuarial Report" within the next 60 days that will provide details on the Cash Balance assets, demographics, and financial status of this new benefit.

One more thing, our web site benefit estimator has NOT been updated with the new annuity factors yet. The project is being held up until our new web site is ready. Look for an update in your June quarterly statement.

We thank you for your support and, at times, your patience this past year as we implemented the new Cash Balance Benefit and focused many hours to our new information system. We also worked closely with the NIS staff responsible for the State's new payroll system to insure the contributions made by State employees and members of the DCP are properly remitted to our record keeper, Ameritas Life Insurance Corp.

If you have questions about your account or the benefits you are eligible to receive at retirement, please contact NPERS at 800-245-5712 or 402-471-2053.

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# INVESTMENT BASICS



# YOUR “BIG” VACATION PLANNING GUIDE

by Mary Jochim

It is an unfortunate fact that many Americans spend less time planning for their retirement than planning for their vacations. All it takes is a little time, some thoughtfulness – and a clear understanding of the myths that hinder us from building a secure retirement. After all, your retirement should be the best vacation of your life.



## Consider the following myths:

### **Myth #1: I’m too young to worry about retirement...**

News Flash. You won’t stay young. You’re never too young to make plans. You may also think you are going to be just a short-timer in state or county government, so why bother. Others have thought that too, only to surprise themselves some 20 or 30 years later that they turned out to be a “lifer” in government. Even if you leave government service, it is imperative you maximize your retirement plan each and every year, no matter where you work. Pay attention. Ask questions. Besides your mandatory retirement plan, the Defined Contribution Plan or the more recent introduced Cash Balance Plan, you also have a voluntary 457 Deferred Compensation Plan where you can put aside extra dollars on a tax deferred basis. The sooner you begin saving for retirement, and taking advantage of offerings like the 457 Plan, the less you’ll have to put aside. For example, if you want to have a \$200,000 additional nest egg by age 65, you’ll only have to save about \$26 a week if you start at age 35. But if you wait until you’re 55 to start, you’d have to put aside \$233 every week. You can do this the easy way by starting now, no matter what your age.

(Both cases assume your money is invested earning a hypothetical 9% return. This example is for illustrative purposes only and is not intended to reflect the actual performance of any security. Investing involves risk and you may incur a profit or a loss.)

### **Myth # 1.5: It’s too late for me. All my time to save is gone...**

If that were true, you wouldn’t be reading this.

### **Myth #2: I won’t need much to live on...**

Wow. Beans and wieners. That sounds like fun! Many experts estimate that, on average, to maintain your standard of living in retirement, you’ll need 60 to 80 % of your pre-retirement income. And that income has to continue to grow enough in an attempt to keep up with inflation. Don’t just read this paragraph - do the math. How much money will you need?

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**Myth #3: My kids will take care of me...**

Good luck! This is not a strategy for most reasonably sane people. Most children might want to lend their aging parents a hand, but many can't afford to. About the time you're ready to retire, your children could be paying their children's college tuition – and saving for their own retirement. You'd be wise, therefore, to leave the kids out of your plans. They will appreciate it.

**Myth #4: Social Security will take care of me...**

What world have you been living in? It's unwise to expect Social Security to cover all your costs. Depending on your income level, you may find that Social Security might replace as much as 50% to as little as 20% or less of your current income. It is not enough. Take a moment and visit the Social Security web site [www.ssa.gov](http://www.ssa.gov) and find out how you can get a personalized estimate.

**Myth #5 I can't afford to put money away where I can't touch it for many years...**

The truth is, you can't afford *not* to participate in tax deferred retirement plans! Thank goodness your basic retirement plan is mandatory or some would not even contribute to a plan where there was a generous employer match, which amounts to "free money," if it meant less money in their pocket. Contributions to the voluntary 457 Deferred Compensation Plan, as well as various IRAs, ROTHs and the like can reduce your current tax burden or provide tax-free withdrawals and significantly improve your nest egg. In addition, taxes are also deferred on earnings, so retirement savings have the potential to grow faster than others do. Sign up now!

**What else should you do?**

A comfortable retirement requires looking the facts squarely in the face – yourself in the mirror – and creating a realistic plan that works for you. Take advantage of the many educational resources available. Attend a Personal Planning Seminar offered by the Nebraska Public Employees Retirement System (NPERS). Of course, this brief article is no substitute for a careful analysis of your personal circumstances. Before implementing any significant tax or financial planning strategy, contact your financial advisor, attorney or tax advisor as appropriate.



Do it before you plan your next vacation.



## ACCUMULATION OF \$1,000 ANNUALLY AT 8% VS. THE COST OF WAITING

### DOLLAR COST AVERAGING

Dollar cost averaging means investing the same amount on a regular basis, done over time throughout various market cycles by buying more when the price is low and less when the price is high. The graph shows how dollar cost averaging works. The higher the unit price, the less units your dollar buys. The lower the unit price, the more units your dollar buys.

*Dollar cost averaging does not insure an investor of a profit.*

### DIVERSIFICATION

#### FIRST INVESTOR

Invests \$10,000 once,  
invested for 25 years and  
earns an 8% fixed rate of return.

#### SECOND INVESTOR

Diversifies in 5 different investments  
made at different times.

	AMOUNT INVESTED	RATE OF RETURN	ENDING VALUE
	\$2,000	-100%	\$0 (Total Loss)
	\$2,000	0%	\$2,000
	\$2,000	5%	\$6,800
	\$2,000	10%	\$21,700
	\$2,000	15%	\$65,800
<b>Total Accumulation:</b>	<b>\$68,500</b>	<b>Total Accumulation:</b>	<b>\$96,300</b>

The Second Investor has \$27,800 more in spite of losing 100% of one investment and receiving a 0% return on the second investment.

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# GRIN AND BEAR IT!


by Mary Jochim





Perseverance. Patience. Persistence. While these words were once limited to the battle cries for military organizations and football teams across the country, they have recently become the mantra for investors being ravaged by the latest bear market. But this particular bear market has mauled so many money maxims that talking the talk is certainly much easier than walking the walk. However, there are common principles no matter what maxim you choose.

There are two times when people forget their investment principles - at the top of the market and the bottom of the market. Keep in mind, there have been 30 bear markets in the last 100 years and each one was followed by a recovery. If you are an investor concerned with protecting your portfolio in the future from more stock market volatility, below are some basic principles that may help you fight the bear.

 **Formalize your goals.** As with the achievement of any goal, commitment to it is half the battle. Make your dedication official by writing your goals down, both short- and long-term. You can then check your progress by updating them annually. If not, how else will you know if you're close to attaining them? Remember, if you don't know where you are going, any road will get you there.

 **Stay balanced.** Build a well-diversified portfolio using different assets classes, like stocks, bonds, money markets, etc., and investments that are designed to complement each other and may not move in the same direction at the same time. Over all, your investment portfolios, savings, retirement and taxable investments should be comprised of cash equivalents, bonds, equities, real estate and tangibles. If you are not comfortable making such decisions, take a good look at some of the pre-mixed funds offered as options in the 457 Deferred Compensation Plan or the Defined Contribution Plan. These diversified "pre-mixed" funds do most of the work for you including rebalancing as necessary to keep your asset allocation on target.

 **Reassess your risk tolerance.** Amidst market turmoil, you may realize you don't quite have the stomach for volatility you originally thought. If that's the case, move incrementally over time toward a more appropriate investment mix. Again, this is where a well-diversified portfolio can help. It will offset instability and put you on the path toward achieving your financial goals.

 **Dollar cost average.** If the majority of your assets are not in the market, if you don't rely heavily on your investments for current income, or your investments are in for the long haul in retirement plans, you can likely withstand more volatility than the next investor. Remember, during market declines you are able to invest more at lower prices.



**Prepare for the long haul.** There are few guarantees in life, but one thing you can be sure of is market volatility. That's why it's important for you to ignore the everyday ups and downs of the market and stay focused on the long term. Don't try to time the market. History shows this is one of the worst things an investor can do because they usually don't do it well. You have to be right twice in timing the market, once in knowing when to get out and then, twice knowing when to get back in. Knee-jerk reactions could make things even worse. Remember time is on the side of the prudent, well-diversified investor. It's not timing the market that matters; it is time in the market. Peter Lynch, a well-respected investment professional, has stated "When it's 15° below in Minnesota they don't panic - they just wait until spring." Substitute "Nebraska" for "Minnesota" and you get the point. That's great advice for a bear market. The bear will go back into hibernation.

If you'd like to talk to someone about your situation, NPERS has a contract with **Sterling Financial Advisors**, a registered investment advisor, to do just that. Sterling Financial may be able to provide you with some of the pros and cons of various investment options, market outlooks and some guidelines to consider. While no one can advise you what you should do, it can be very helpful discussing your options with professionals. You can reach Sterling at **877-970-9300** or in Omaha at **402-970-9300**.

## BEAR SURVIVAL TIPS

We thought it would be interesting to see if there was any correlation between an encounter with a bear and an encounter with a bear market. Considering that both events are stressful but filled with opportunity, we were not surprised to find that much of the advice works equally well in either situation.



### What to do if you encounter a bear...

Courtesy of the National Park Service, Dept. of the Interior

“Do Not Run! Running may elicit a chase response in a non-aggressive bear. Bears can run faster than 30 mph – you can not outrun them.”

“If there is more than one person, stand together to present a more intimidating figure, but do not surround the bear.”

“Lie face down and curl up, protecting your neck, and don’t move. This requires significant courage, but resistance would be futile.”

“Should a bear approach or charge you, do not run — do not drop your pack.”

“Yell, clap hands, and bang pots together. When done immediately, these actions have been successful in scaring bears away.”

“Give the bear the opportunity to leave. If the bear does not leave, but comes closer or charges, stand your ground.”

“Eventually, if the bear becomes a threat to human safety, it will be killed.”

“Bears have always been a part of the natural environment.”

“Each of us has an obligation to respect bears and their habitat. The rules listed above are strictly enforced in the park. Failure to observe them may result in citations and fines.”

*And finally...*

“Respecting bears and learning proper behavior in their territory will ensure that any encounters will result in an interesting story or memory, rather than a tragic experience for either bear or human.”

### What to do in a bear market...

Courtesy of John Hancock Funds and Sterling Financial

Do not move quickly! Selling assets after a fall may lock in your paper losses. A bear happens quickly — by the time you know it’s there, it may be almost over.

Involve another person in your financial decisions. Your financial professional may make a bear market less intimidating.

Sit back and try to relax, protecting your assets, and don’t make any drastic changes to your portfolio. This requires significant courage.

Should a bear market occur, do not panic — do not abandon your long-term plan.

Excessive media “noise” about market declines has historically signaled the beginning of the end for a bear market.

Give the bear the opportunity to leave. If the market does not rise, but continues to fall, stick to your plan.

Eventually, if the bear becomes a threat to the overall economy, it may be killed (probably by the Fed).

Bears have always been a part of the natural market cycle.

Long-term investors have an obligation to respect bears. The above rules are strictly enforced in the market. Failure to observe them may increase your chances of losing capital.

Respecting bears and learning how to invest in a down market can create buying opportunities that may actually improve your long-term results.

**Remember: A bear attack, while painful, is almost never fatal...if you follow the rules.**

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## INVESTMENT FUND SELECTION

Selecting the appropriate investment funds is an important decision. Your investment strategy should result in a selection mixture of investment funds best suited to your financial needs and family circumstances. Some of the factors influencing your decision include age, other financial assets, health, risk tolerance, goals for retirement and special needs.

State law outlines the type of funds that may be used for the State, County and Deferred Compensation Plans and the Nebraska Investment Council selects the money managers for each fund. The available funds have been selected because of their differences in investment characteristics. Each fund description summarizes the type of investments made, risk characteristics, advantages, and, where available, historical results. The goal of each fund is to provide the best possible return consistent with the risk level of the fund.

As you study the choices, remember the following:

- ◆ There is no “ideal” investment. A fund’s performance will vary over time, and will include periods when other funds will perform better. Historical performance is only a guide and should not be used to predict future results.
- ◆ Diversifying your contributions between various funds allows you to tailor the risk characteristics of your account.
- ◆ Develop a total personal financial plan and select a combination of investment funds which will come closest to your financial objectives.
- ◆ Review your financial plan periodically. Altered circumstances or goals may indicate a change in investment mix.
- ◆ Your choices should be influenced by your investment time frame, your age, your health, your retirement needs, other sources of retirement income, and your risk/reward comfort level.
- ◆ Don’t make investment decisions based on recent history. The decisions investors make at the top of bull markets or at the bottom of bear markets have a higher than average probability of being wrong.
- ◆ Consider using a “premixed” option. These premixed funds do most of the work for you! You will be diversified over the broad array of investment funds available. Best yet, the funds will automatically rebalance when market movements dictate. For example, the Moderate Premixed Fund will have 50% of its assets in various stock funds. As the stock market performs well, the growth in value of those stock funds may approach 60%, for example. At that juncture, the fund will reduce its exposure to stock back to 50%, thus selling high, and buying more fixed income. The reverse happens when stocks are underperforming. If stock exposure has fallen to only 40%, the Moderate Premixed Fund will sell some fixed income investments and buy more of the stocks funds, getting back to a 50% – 50% asset allocation. This is the best way invented to buy low and sell high.
- ◆ Make sure you attend one of the Personal Planning seminars. Watch for dates and locations in upcoming issues of the “Retirement Roundup” newsletter. The financial nest egg you may save could well be yours.

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With all this concern about risk, we thought it would be interesting to put things in perspective.

### WHAT ARE THE ODDS...

...that you'll win the state lottery?	1 in 4 million
...that you'll be killed by a plane falling on you?	1 in 300,000
...that you'll one day receive a new identity under the U.S. Witness Security Program?	1 in 20,000
...that you'll be killed in a plane crash?	1 in 4,000
...that you'll crush a finger with a hammer this year?	1 in 3,000
...that you have a fish or shellfish allergy?	1 in 1,000
...that the airlines will lose your luggage?	1 in 186
...that you'll be audited by the IRS?	1 in 100
...that you'll be killed in a car accident?	1 in 42
...that your next meal will be from McDonald's?	1 in 8
...that it's just tap water when you buy bottled water?	1 in 4
...that if you call the IRS for tax assistance, no one will answer your call?	1 in 3
...that you'll experience back pain sometime during the next 6 weeks?	1 in 2
...that nuclear weapons are based in your state?	1 in 2
<b>...THAT AN INVESTMENT IN STOCKS WILL MAKE MONEY IN ANY GIVEN YEAR?</b>	<b>7 in 10</b>
...that you'll regain weight you lost by dieting?	9 in 10

Source: Larry Laudan, *Danger Ahead. The Risks You Really Face on Life's Highway*

## RISK RELATED TO RETURN

- ◆ **Low Risk Investing** (Conservative Investment Model) has less change up and down in value, less risk of capital losses during any given time period, more risk of under-performance over time, more loss of purchasing power over time, and historically lower rates of return.
- ◆ **Moderate Risk Investing** (Moderate Investing Model) has more change up and down in value, more risk of capital losses during difficult markets periods, less risk of under-performance over time, less risk of loss of purchasing power, and historically higher rates of return.
- ◆ **High Risk Investing** (Aggressive Investing Model) has frequent changes up and down in value, some changes in value can be large, more risk of capital losses over shorter periods of time, less risk of under-performance over time, less risk of loss of purchasing power over time, and historically the highest rates of return over time.

### CONSERVATIVE INVESTING MODEL

- ◆ *Emphasis:* Safety and Stability
- ◆ *Retirement Horizon:* 5-10 years
- ◆ *Goal:* Preservation of principal with competitive returns
- ◆ *Risk:* Low

### MODERATE INVESTING MODEL

- ◆ *Emphasis:* More stability in an “up and down” market
- ◆ *Retirement Horizon:* 10-20 years
- ◆ *Goal:* Growth and current income
- ◆ *Risk:* Moderate

### AGGRESSIVE INVESTING MODEL

- ◆ *Emphasis:* Build assets and protect against inflation
- ◆ *Retirement Horizon:* 20+ years
- ◆ *Goal:* Capital appreciation
- ◆ *Risk:* High

### EXAMPLES OF:

**LOW RISK**  
Employer Conservative Fund  
Money Market Fund  
Stable Value Fund  
Conservative Premixed Fund

**MODERATE RISK**  
Employer Moderate Fund  
Bond Market Index Fund  
Moderate Premixed Fund

**HIGH RISK**  
Employer Aggressive Fund  
S&P Stock Index Fund  
Large Company Growth Fund  
Large Company Value Fund  
Aggressive Premixed Fund  
International Stock Fund  
Small Company Stock Fund





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# SUMMARY OF PLAN ASSETS



# STATE OF NEBRASKA EMPLOYEES RETIREMENT PLAN

Contract 3310-01

Summary of Assets for 01/01/02 to 12/31/02

Fund Name	Beginning Balance		Net			Net		Ending Balance	
	01/01/02	Deposits	Withdrawals	Transfers	Expenses	Earnings	12/31/02		
Employer Conservative Fund	\$ 22,380,182.05	\$ 2,188,111.97	\$ (4,289,178.57)	\$ 15,505,817.11	\$ (14,204.43)	\$ 1,547.21	\$ 35,772,275.34		
Employer Aggressive Fund	\$ 33,280,869.91	\$ 4,663,270.16	\$ (651,794.63)	\$ (750,384.37)	\$ (27,830.26)	\$ (4,970,442.64)	\$ 31,543,688.17		
Employer Moderate Fund	\$ 398,513,969.88	\$ 26,811,165.59	\$ (16,879,891.22)	\$ (14,785,333.71)	\$ (890,880.21)	\$ (27,823,252.26)	\$ 364,945,778.07		
Stable Fund	\$ 132,481,018.67	\$ 6,519,880.99	\$ (9,247,891.59)	\$ 3,474,444.13	\$ (68,349.61)	\$ 7,324,503.94	\$ 140,483,606.53		
Money Market Fund	\$ 1,928,742.54	\$ 336,181.94	\$ (189,316.32)	\$ 417,477.49	\$ (2,399.16)	\$ 37,051.61	\$ 2,527,738.10		
S & P 500 Stock Index	\$ 89,253,681.04	\$ 7,589,417.67	\$ (2,276,498.74)	\$ (5,261,719.59)	\$ (44,219.43)	\$ (19,963,223.05)	\$ 69,297,437.90		
Small Co. Stock Fund	\$ 7,738,543.87	\$ 1,021,719.59	\$ (182,529.02)	\$ 323,270.14	\$ (6,535.25)	\$ (1,829,914.42)	\$ 7,064,554.91		
International Stock Fund	\$ 3,853,142.91	\$ 574,781.46	\$ (101,202.39)	\$ (134,577.91)	\$ (3,157.12)	\$ (713,164.97)	\$ 3,475,821.98		
Bond Market Index	\$ 3,819,900.30	\$ 571,775.27	\$ (290,404.88)	\$ 3,022,549.17	\$ (3,549.26)	\$ 521,556.39	\$ 7,641,826.99		
Lg. Co. Growth Stock Index	\$ 7,473,344.55	\$ 1,026,459.34	\$ (202,165.58)	\$ (592,829.04)	\$ (5,111.19)	\$ (2,091,886.86)	\$ 5,607,811.22		
Lg. Co. Value Stock Index	\$ 3,315,379.21	\$ 530,441.78	\$ (103,763.40)	\$ 669,997.38	\$ (3,020.55)	\$ (655,424.83)	\$ 3,753,609.59		
Conservative Premixed Fund	\$ 702,770.68	\$ 178,460.66	\$ (145,425.90)	\$ 67,899.06	\$ (1,200.87)	\$ (2,898.47)	\$ 799,605.16		
Aggressive Premixed Fund	\$ 3,677,090.67	\$ 700,722.97	\$ (181,278.56)	\$ (212,955.10)	\$ (4,614.50)	\$ (509,540.74)	\$ 3,469,424.74		
Moderate Premixed Fund	\$ 34,227,319.04	\$ 2,534,239.74	\$ (1,351,236.68)	\$ (1,743,654.76)	\$ (18,304.60)	\$ (2,227,780.56)	\$ 31,420,582.18		
<b>Total Fund</b>	<b>\$ 742,645,955.32</b>	<b>\$ 55,246,629.13</b>	<b>\$ (36,092,577.48)</b>	<b>\$ (0.00)</b>	<b>\$ (1,093,376.44)</b>	<b>\$ (52,902,869.65)</b>	<b>\$ 707,803,760.88</b>		

# NEBRASKA COUNTY EMPLOYEES RETIREMENT PLAN

Contract 3135-01

## Summary of Assets for 01/01/02 to 12/31/02

Fund Name	Beginning Balance		Net			Net		Ending Balance	
	01/01/02		Deposits	Withdrawals	Transfers	Expenses	Earnings	12/31/02	
Employer Conservative Fund	\$ 4,288,884.29	\$	\$ 660,907.22	\$ (383,632.65)	\$ 2,841,377.32	\$ (6,745.23)	\$ (613.40)	\$ 7,400,177.55	
Employer Aggressive Fund	\$ 5,153,151.17	\$	\$ 1,030,088.09	\$ (220,281.05)	\$ (306,365.45)	\$ (9,656.33)	\$ (786,607.91)	\$ 4,860,328.52	
Employer Moderate Fund	\$ 98,120,142.60	\$	\$ 7,360,310.17	\$ (3,893,181.98)	\$ (2,535,011.87)	\$ (584,898.53)	\$ (6,900,003.39)	\$ 91,567,357.00	
Stable Fund	\$ 31,760,016.66	\$	\$ 1,905,793.23	\$ (1,586,428.22)	\$ 536,006.10	\$ (30,725.07)	\$ 1,778,577.59	\$ 34,363,240.29	
Money Market Fund	\$ 381,506.74	\$	\$ 119,969.77	\$ (25,035.02)	\$ 16,792.29	\$ (1,647.49)	\$ 7,600.59	\$ 499,186.88	
S & P 500 Stock Index	\$ 22,449,030.45	\$	\$ 1,996,556.47	\$ (874,622.51)	\$ (824,020.37)	\$ (20,199.32)	\$ (5,036,867.89)	\$ 17,689,876.83	
Small Co. Stock Fund	\$ 1,438,798.68	\$	\$ 255,185.35	\$ (79,767.37)	\$ 166,812.12	\$ (2,871.14)	\$ (345,372.31)	\$ 1,432,785.33	
International Stock Fund	\$ 595,887.52	\$	\$ 138,846.93	\$ (21,695.37)	\$ 14,781.13	\$ (1,335.63)	\$ (118,403.17)	\$ 608,081.41	
Bond Market Index	\$ 692,593.83	\$	\$ 138,133.64	\$ (22,042.54)	\$ 653,383.38	\$ (1,633.34)	\$ 107,758.33	\$ 1,568,193.30	
Lg. Co. Growth Stock Index	\$ 1,366,320.94	\$	\$ 262,364.26	\$ (75,280.18)	\$ (87,611.85)	\$ (2,208.05)	\$ (394,882.79)	\$ 1,068,702.33	
Lg. Co. Value Stock Index	\$ 522,741.12	\$	\$ 131,094.46	\$ (24,538.47)	\$ 151,730.25	\$ (1,274.50)	\$ (101,760.56)	\$ 677,992.30	
Conservative Premixed Fund	\$ 142,188.90	\$	\$ 63,737.92	\$ (3,386.26)	\$ (36,190.64)	\$ (777.11)	\$ (204.12)	\$ 165,368.69	
Aggressive Premixed Fund	\$ 773,538.81	\$	\$ 239,650.37	\$ (34,100.58)	\$ (120,145.43)	\$ (2,672.17)	\$ (108,086.22)	\$ 748,184.78	
Moderate Premixed Fund	\$ 9,626,525.62	\$	\$ 802,823.21	\$ (280,869.55)	\$ (471,536.98)	\$ (9,924.73)	\$ (642,242.38)	\$ 9,024,775.19	
<b>Total Fund</b>	<b>\$ 177,311,327.33</b>	<b>\$</b>	<b>\$ 15,105,461.09</b>	<b>\$ (7,524,861.75)</b>	<b>\$ 0.00</b>	<b>\$ (676,568.64)</b>	<b>\$ (12,541,107.63)</b>	<b>\$ 171,674,250.40</b>	

# STATE OF NEBRASKA DEFERRED COMPENSATION PLAN

Contract 2000-01

Summary of Assets for 01/01/02 to 12/31/02

Fund Name	Beginning Balance	Net			Net	Ending Balance
	<u>01/01/02</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Transfers</u>	<u>Expenses</u> <u>Earnings</u>	<u>12/31/02</u>
Stable Fund	9,362,015.93	1,470,144.79	(1,302,472.60)	1,347,918.12	(16,584.94) 545,657.92	11,406,679.22
Money Market Fund	1,356,569.34	210,674.17	(130,195.95)	33,802.10	(3,172.18) 24,191.07	1,491,868.55
S & P 500 Stock Index	21,644,979.78	2,501,001.86	(1,851,813.20)	(1,252,807.50)	(56,984.38) (4,698,605.11)	16,285,771.45
Small Co. Stock Fund	3,547,766.72	684,772.75	(428,298.50)	(86,126.00)	(9,789.21) (758,653.22)	2,949,672.54
International Stock Fund	3,455,983.36	452,438.55	(300,622.17)	(256,494.64)	(9,410.36) (595,506.89)	2,746,387.85
Bond Market Index	2,484,509.29	609,794.77	(507,889.41)	408,485.97	(6,061.56) 263,579.63	3,252,418.69
Lg. Co. Growth Stock Index	2,422,305.54	525,263.93	(224,376.37)	(113,066.87)	(6,278.79) (708,361.77)	1,895,485.67
Lg. Co. Value Stock Index	1,236,866.90	375,460.03	(131,829.60)	507,882.11	(3,650.18) (221,597.32)	1,763,131.94
Conservative Premixed Fund	313,369.00	102,399.94	(9,487.91)	(8,143.22)	(1,072.64) (8,555.57)	388,509.60
Aggressive Premixed Fund	1,598,783.75	310,293.21	(37,747.55)	(231,529.81)	(3,871.72) (199,445.40)	1,436,482.48
Moderate Premixed Fund	5,834,531.87	798,582.46	(863,596.02)	(349,920.26)	(15,093.06) (376,160.72)	5,028,344.27
<b>Total Fund</b>	<b>53,257,681.48</b>	<b>8,040,826.46</b>	<b>(5,788,329.28)</b>	<b>(0.00)</b>	<b>(131,969.02)</b> <b>(6,733,457.38)</b>	<b>48,644,752.26</b>



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# HISTORICAL INVESTMENT RETURNS





# NEBRASKA STATE EMPLOYEES RETIREMENT SYSTEM

**December 31, 2002**  
**HISTORICAL RETURNS**

	MONEY MARKET FUND	STABLE FUND*	BOND MARKET INDEX FUND	S & P 500 STOCK INDEX FUND	LARGE COMPANY GROWTH STOCK INDEX FUND**	LARGE COMPANY VALUE STOCK INDEX FUND**	SMALL COMPANY STOCK FUND***
Quarter	0.39%	1.30%	1.60%	8.41%	7.05%	9.26%	6.80%
2002	1.81%	5.55%	10.41%	-22.13%	-27.84%	-15.56%	-19.19%
2001	4.28%	6.08%	8.35%	-11.95%	-20.38%	-5.60%	12.59%
2000	6.47%	6.35%	11.68%	-9.15%	-22.32%	6.94%	3.29%
1999	5.17%	6.35%	-0.93%	21.00%	18.26%	-5.78%	25.37%
1998	5.60%	6.80%	8.80%	28.50%	39.00%	15.50%	-5.60%
1997	5.60%	6.70%	9.70%	33.30%	30.50%	34.90%	24.20%
1 Year	1.81%	5.55%	10.41%	-22.13%	-27.84%	-15.56%	-19.19%
3 Year	4.17%	5.99%	10.14%	-14.60%	-23.58%	-5.18%	-2.05%
5 Year	4.65%	6.23%	7.57%	-0.64%	-6.01%	-1.49%	2.15%
10 Year	4.77%	6.70%	N/A	9.31%	N/A	N/A	9.68%

	INTERNATIONAL STOCK FUND	CONSERVATIVE PREMIXED FUND	MODERATE PREMIXED FUND	AGGRESSIVE PREMIXED FUND	EMPLOYER CONSERVATIVE FUND	EMPLOYER MODERATE FUND	EMPLOYER AGGRESSIVE FUND
Quarter	8.77%	2.64%	4.53%	6.47%	2.63%	4.42%	6.35%
2002	-17.69%	-0.95%	-6.44%	-13.49%	-1.27%	-6.90%	-14.12%
2001	-21.69%	2.10%	-1.87%	-6.51%	2.72%	-0.71%	-4.51%
2000	-16.76%	4.10%	-0.61%	-4.62%	3.88%	0.19%	-3.70%
1999	34.59%	3.40%	6.23%	8.10%	2.30%	11.74%	4.45%
1998	16.10%	N/A	N/A	N/A	N/A	N/A	N/A
1997	3.10%	N/A	N/A	N/A	N/A	N/A	N/A
1 Year	-17.69%	-0.95%	-6.44%	-13.49%	-1.27%	-6.90%	-14.12%
3 Year	-18.74%	1.73%	-3.01%	-8.29%	1.75%	-2.53%	-7.57%
5 Year	-3.46%	N/A	N/A	N/A	N/A	N/A	N/A
10 Year	4.72%	N/A	N/A	N/A	N/A	N/A	N/A

MAJOR INDICES:	S & P 500 Index	Russell 2000 Index	NASDAQ Composite
Quarter	8.43%	6.15%	14.85%
YTD	-22.12%	-20.48%	-30.24%

1. Returns are net of investment management fees.
2. The 3, 5, and 10 -year returns are expressed as average annual rates of return on the underlying funds through December 31, 2002.
3. Past performance is not indicative of future performance.

\*Actual fund performance for past 3 years; historical information is combined returns for state and county stable funds.

\*\*Actual performance since 1999; historical returns based on core funds of SSgA.

\*\*\*Actual performance since 2000; historical returns are on the underlying DFA funds, net of fees.

# NEBRASKA COUNTY EMPLOYEES RETIREMENT SYSTEM

*December 31, 2002*  
**HISTORICAL RETURNS**

	MONEY MARKET FUND	STABLE FUND*	BOND MARKET INDEX FUND	S & P 500 STOCK INDEX FUND	LARGE COMPANY GROWTH STOCK INDEX FUND**	LARGE COMPANY VALUE STOCK INDEX FUND**	SMALL COMPANY STOCK FUND***
Quarter	0.39%	1.30%	1.60%	8.41%	7.05%	9.26%	6.80%
2002	1.81%	5.55%	10.41%	-22.13%	-27.84%	-15.56%	-19.19%
2001	4.28%	6.08%	8.35%	-11.95%	-20.38%	-5.60%	12.59%
2000	6.47%	6.35%	11.68%	-9.15%	-22.32%	6.94%	3.29%
1999	5.17%	6.35%	-0.93%	21.00%	18.26%	-5.78%	25.37%
1998	5.60%	6.80%	8.80%	28.50%	39.00%	15.50%	-5.60%
1997	5.60%	6.70%	9.70%	33.30%	30.50%	34.90%	24.20%
1 Year	1.81%	5.55%	10.41%	-22.13%	-27.84%	-15.56%	-19.19%
3 Year	4.17%	5.99%	10.14%	-14.60%	-23.58%	-5.18%	-2.05%
5 Year	4.65%	6.23%	7.57%	-0.64%	-6.01%	-1.49%	2.15%
10 Year	4.77%	6.93%	N/A	9.31%	N/A	N/A	9.68%

	INTERNATIONAL STOCK FUND	CONSERVATIVE PREMIXED FUND	MODERATE PREMIXED FUND	AGGRESSIVE PREMIXED FUND	EMPLOYER CONSERVATIVE FUND	EMPLOYER MODERATE FUND	EMPLOYER AGGRESSIVE FUND
Quarter	8.77%	2.64%	4.53%	6.47%	2.63%	4.42%	6.35%
2002	-17.69%	-0.95%	-6.44%	-13.49%	-1.27%	-6.90%	-14.12%
2001	-21.69%	2.10%	-1.87%	-6.51%	2.72%	-0.71%	-4.51%
2000	-16.76%	4.10%	-0.61%	-4.62%	3.88%	0.19%	-3.70%
1999	34.59%	3.40%	6.23%	8.10%	2.30%	11.74%	4.45%
1998	16.10%	N/A	N/A	N/A	N/A	N/A	N/A
1997	3.10%	N/A	N/A	N/A	N/A	N/A	N/A
1 Year	-17.69%	-0.95%	-6.44%	-13.49%	-1.27%	-6.90%	-14.12%
3 Year	-18.74%	1.73%	-3.01%	-8.29%	1.75%	-2.53%	-7.57%
5 Year	-3.46%	N/A	N/A	N/A	N/A	N/A	N/A
10 Year	4.72%	N/A	N/A	N/A	N/A	N/A	N/A

MAJOR INDICES:	S & P 500 Index	Russell 2000 Index	NASDAQ Composite
Quarter	8.43%	6.15%	14.85%
YTD	-22.12%	-20.48%	-30.24%

1. Returns are net of investment management fees.
2. The 3, 5, and 10 -year returns are expressed as average annual rates of return on the underlying funds through December 31, 2002.
3. Past performance is not indicative of future performance.

\*Actual fund performance for past 3 years; historical information is combined returns for state and county stable funds.

\*\*Actual performance since 1999; historical returns based on core funds of SSgA.

\*\*\*Actual performance since 2000; historical returns are on the underlying DFA funds, net of fees.

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# FUND DETAILS



## EMPLOYER CONSERVATIVE FUND

December 31, 2002

**Investment Objective:** Through a combination of 25% stocks and 75% fixed income investments, this fund is designed to provide a diversified conservative strategy with emphasis placed on fixed income to obtain lower volatility and market risk.

**Investment Style:** This fund consists of a mixture of some of the other investment choices available in the plan. The target allocation is shown in the pie chart.

Performance Thru 12/31/02:		Fund*	Lehman	S&P 500	Russell 2000	SSgA Money
			Aggregate	Index	Stock Index	Market
	One Year	-0.7%	10.3%	-22.1%	-20.5%	1.9%
	Three Years	1.9	10.1	-14.6	-7.6	4.2
	Five Years	N/A	7.5	-0.6	-1.4	4.6

\*Time-weighted rates of return, net of investment fees.

Target Allocation:		Target	Holdings
	S&P 500 Stock Index Fund	22.5%	21.7%
	Small Company Stock Fund	2.5	2.5
	Bond Market Index Fund	37.5	38.3
	Money Market Fund	37.5	37.6

**Portfolio Analysis:** Portfolio Assets \$43.2 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, Bond Market Index Fund, and Money Market Fund.

**Manager:** S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, and Small Company Stock Fund is managed by Dimensional Fund Advisors.

**Annual Investment Fee:** Approximately 0.08%

## EMPLOYER MODERATE FUND

December 31, 2002

**Investment Objective:** Through a combination of 50% stocks and 50% fixed income investments, this fund is designed to provide a diversified balanced strategy with the investment split equally between equities with their higher expected returns and fixed income investments with their lower volatility market risk.

**Investment Style:** This fund consists of a mixture of some of the other investment choices available in the plan. The target allocation is shown in the pie chart.

			Lehman	S&P 500	Russell 2000	SSgA
		Fund*	Aggregate	Index	Stock Index	Money Market
<b>Performance Thru 12/31/02:</b>	One Year	-6.9%	10.3%	-22.1%	-20.5%	1.9%
	Three Years	-2.6	10.1	-14.6	-7.6	4.2
	Five Years	N/A	7.5	-0.6	-1.4	4.6

\*Time-weighted rates of return, net of investment fees.

		Target	Holdings
<b>Target Allocation:</b>	S&P 500 Stock Index Fund	45.0%	42.2%
	Small Company Stock Fund	5.0	4.7
	Bond Market Index Fund	37.5	40.0
	Money Market Fund	12.5	13.2

**Portfolio Analysis:** Portfolio Assets \$456.5 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, Bond Market Index Fund, and Money Market Fund.

**Manager:** S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, and Small Company Stock Fund is managed by Dimensional Fund Advisors.

**Annual Investment Fee:** Approximately 0.07%

## EMPLOYER AGGRESSIVE FUND

December 31, 2002

**Investment Objective:** Through a combination of 75% stocks and 25% fixed income investments, this fund is designed to provide a diversified aggressive strategy with the emphasis placed on equities with their higher expected returns for participants comfortable with assuming greater market risk and volatility.

**Investment Style:** This fund consists of a mixture of some of the other investment choices available in the plan. The target allocation is shown in the pie chart.

Performance Thru 12/31/02:		Fund*	Lehman	S&P 500	Russell 2000
			Aggregate	Index	Stock Index
	One Year	-14.4%	10.3%	-22.1%	-20.5%
	Three Years	-7.7	10.1	-14.6	-7.6
	Five Years	N/A	7.5	-0.6	-1.4

\*Time-weighted rates of return, net of investment fees.

Target Allocation:		Target	Holdings
	S&P 500 Stock Index Fund	67.5%	65.9%
	Small Company Stock Fund	7.5	7.3
	Bond Market Index Fund	25.0	26.9

**Portfolio Analysis:** Portfolio Assets \$36.4 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund and Bond Market Index Fund.

**Manager:** S&P 500 Stock Index Fund and Bond Market Index Fund are managed by State Street Global Advisors, and Small Company Stock Fund is managed by Dimensional Fund Advisors.

**Annual Investment Fee:** Approximately 0.06%

# MONEY MARKET FUND

December 31, 2002

**Investment Objective:** The Money Market Fund seeks to maximize current income while preserving capital and liquidity through investing in a diversified portfolio of short-term securities. The Fund's yield reflects short-term interest rates. Contributions to the Fund are invested in the State Street Short-Term Investment Fund.

**Investment Style:** Investments are managed conservatively by investing only in high quality short-term instruments such as U.S. government and agency obligations, commercial paper, repurchase agreements, bankers acceptances, certificates of deposit, time deposits and other fixed income investments.

Performance Thru 12/31/02:		Fund*	3 Month
			US Treasury Bills
	One Year	1.9%	1.8%
	Three Years	4.2	4.1
	Five Years	4.6	4.5

\* Time-weighted rates of return, net of investment fees.

<b>Quality Diversification:</b>	A1+/P1	85.6%
	A1/P1	14.0
	A2/P1	0.4

<b>Sector Weights:</b>	Bankers Accept., CDs	35.7%	Agencies	7.1%
	Commercial Paper	33.2	Bank & Corporate Notes	2.7
	Floating Corp. Notes	13.1	Adjustable Rate ABS	0.2
	Repurchase Agreements	8.0		

<b>Characteristics:</b>	Portfolio Assets	\$39.5 B
	Average Quality	A1+/P1
	Average Maturity	53 Days
	Current Yield	2.5%

**Manager:** State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

**Annual  
Investment Fee:** Approximately 0.13%



## STABLE VALUE FUND

December 31, 2002

**Investment Objective:** The investment objective of the Stable Value Fund is to preserve principal value and earn a competitive yield. The Fund accommodates participant withdrawal without penalty.

**Investment Style:** The Stable Value Fund invests in Guaranteed Investment Contracts (GICs), Synthetic Investment Contracts (SICs), and other fixed income instruments. GICs are deposits with GIC issuers that feature repayment of deposits plus interest according to a predetermined schedule. SICs are portfolios of high quality fixed income instruments that are “wrapped” by issuers. SIC wraps are designed to accommodate qualified participant withdrawals.

Performance	Fund*	3 Month US Treasury Bills
<b>Thru 12/31/02: One Year</b>	5.6%	1.8%
Three Years	6.1	4.1
Five Years	6.3	4.5

\*Time-weighted rates of return, net of investment fees.

<b>Composition:</b>	GICs	32.0%
	SICs	58.2
	Cash Equivalents	9.8

<b>Largest Holdings:</b>	GICs-Major Issuers	
	SICs (CDC, Monumental and State Street Bank)	58.2%
	Travelers	5.2
	Protective Life	4.5
	Canada Life	4.3
	SunAmerica Life	3.7
	Security Life of Denver	3.6
	Pacific Life	3.4

<b>Characteristics:</b>	Portfolio Assets	\$186.3 M
	Number of GIC Issuers	18
	Current Yield	5.47%

**Manager:** T. Rowe Price Stable Asset Management, Inc. is a subsidiary of T. Rowe Price Associates located in Baltimore, Maryland.

**Annual Investment Fee:** Approximately 0.13%

## BOND MARKET INDEX FUND

December 31, 2002

**Investment Objective:** The Bond Market Index Fund seeks to replicate the returns and characteristics of the Lehman Brothers Aggregate Index. Contributions to the Fund are invested in the State Street Global Advisors Passive Bond Market Index Fund.

**Investment Style:** The Fund employs a passive bond index strategy that is invested in a diversified portfolio and is representative of the broad bond market. Since complete replication of the Index is not economically practical, a stratified sampling approach is employed to build the Fund portfolio. The portfolio's characteristics closely resemble those of the Index.

Performance		Fund*	Lehman Aggregate Index
Thru 12/31/02:	One Year	10.3%	10.3%
	Three Years	10.1	10.1
	Five Years	7.6	7.5

\*Time-weighted rates of return, net of investment fees.

<b>Quality</b>				
<b>Diversification:</b>	AAA+	35.4%	A	9.7%
	AAA	5.9	BBB	8.6
	AA	5.2	MBS	35.2

<b>Sector Weights:</b>	Mortgage-Backed	35.24%
	Government	34.54
	Corporate Bonds	25.59
	Commercial MBS	2.18
	Asset Backed	1.53

<b>Characteristics:</b>	Portfolio Assets	\$4.98 B
	Average Quality	AA+
	Current Yield	5.67%
	Mod. Adj. Duration	3.79
	Convexity	-0.11

**Manager:** State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

**Annual Investment Fee:** Approximately 0.05%

## CONSERVATIVE PREMIXED FUND

December 31, 2002

**Investment Objective:** Through a combination of 75 % fixed income investments and 25% stocks, this fund is designed to provide a diversified conservative strategy with emphasis placed on fixed income to obtain lower volatility and market risk.

**Investment Style:** The fund consists of a mixture of some of the other investment choices available in the plan. The target allocation is shown in the pie chart.

Performance Thru 12/31/02		Fund*	Lehman	S&P 500	Money	Russell 2000	SSgA MSCI
			Aggregate	Index	Market	Stock Index	EAFE
	One Year	-0.9%	10.3%	-22.1%	1.9%	-20.5%	-15.9%
	Three Years	1.7	10.1	-14.6	4.2	-7.6	-17.2
	Five Years	N/A	7.5	-0.6	4.6	-1.4	-2.9

\*Time-weighted rates of return, net of investment fees.

Target Allocation:		Target Holdings	
	S&P 500 Stock Index Fund	18.0%	17.0%
	Small Company Stock Fund	2.0	2.0
	International Stock Fund	5.0	4.8
	Bond Market Index Fund	37.5	38.8
	Money Market Fund	37.5	37.5

**Portfolio Analysis:** Portfolio Assets \$1.4 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, and International Stock Fund, Bond Market Index Fund, and Money Market Fund.

**Manager:** S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimensional Fund Advisors, and International Stock Fund by T. Rowe Price.

**Annual Investment Fee:** Approximately 0.12%

# MODERATE PREMIXED FUND

December 31, 2002

**Investment Objective:** Through a combination of 50% fixed income investments and 50% stocks, this fund is designed to provide a diversified balanced strategy with investment split evenly between equities with their higher expected returns and fixed income investments with their lower volatility and market risk.

**Investment Style:** The fund consists of a mixture of some of the other investment choices available in the plan. The the target allocation is shown in the pie chart.

							SSgA
Performance Thru 12/31/02:		Fund*	Lehman Aggregate	S&P 500 Index	Money Market	Russell 2000 Stock Index	MSCI EAFE
	One Year	-6.5%	10.3%	-22.1%	1.9%	-20.5%	-15.9%
	Three Years	-3.0	10.1	-14.6	4.2	-7.6	-17.2
	Five Years	N/A	7.5	-0.6	4.6	-1.4	-2.9

\*Time-weighted rates of return, net of investment fees.

Target Allocation:		Target	Holdings
	S&P 500 Stock Index Fund	36.0%	34.4%
	Small Company Stock Fund	4.0	3.7
	International Stock Fund	10.0	9.4
	Bond Market Index Fund	37.5	39.7
Money Market Fund		12.5	12.9

**Portfolio Analysis:** Portfolio Assets \$45.5 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Fund, Bond Market Index Fund and Money Market Fund.

**Manager:** S&P 500 Stock Index Fund, Bond Market Index Fund, and Money Market Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimensional Fund Advisors, and International Stock Fund by T. Rowe Price.

**Annual Investment Fee:** Approximately 0.14%

## AGGRESSIVE PREMIXED FUND

December 31, 2002

**Investment Objective:** Through a combination of 25% fixed income investments and 75% stocks, this fund is designed to provide a diversified aggressive strategy with the emphasis placed on equities with their higher expected returns for participants assuming greater market risk and volatility.

**Investment Style:** The fund consists of a mixture of some of the other investment choices available in the plan. The target allocation is shown in the pie chart.

Performance Thru 12/31/02:		Fund*	Lehman	S&P 500	Russell 2000	MSCI
			Aggregate	Index	Stock Index	EAFE
	One Year	-13.4%	10.3%	-22.1%	-20.5%	-15.9%
	Three Years	-8.3	10.1	-14.6	-7.6	-17.2
	Five Years	N/A	7.5	-0.6	-1.4	-2.9

\*Time-weighted rates of return, net of investment fees.

Target Allocation:			Target	Holdings
	S&P500 Stock Index Fund		54.0%	53.1%
	Small Company Stock Fund		6.0	5.8
	International Stock Fund		15.0	14.6
	Bond Market Index Fund		25.0	26.6

**Portfolio Analysis:** Portfolio Assets \$5.7 M

For additional information, please refer to the fact sheets on the individual funds: S&P 500 Stock Index Fund, Small Company Stock Fund, International Stock Fund and Bond Market Index Fund.

**Manager:** S&P 500 Stock Index Fund and Bond Market Index Fund are managed by State Street Global Advisors, Small Company Stock Fund by Dimensional Fund Advisors and International Stock Fund by T. Rowe Price.

**Annual Investment Fee:** Approximately 0.17%

# S&P STOCK INDEX FUND

December 31, 2002

**Investment Objectives:** The S&P 500 Stock Index Fund seeks to replicate the returns and characteristics of the S&P 500 Index. Contributions to the Fund are invested in the State Street Global Advisors Flagship Fund.

**Investment Style:** The S&P 500 Index is a broad index comprised of 500 common stocks representing 90 industries and over 70% of the capitalization of the U.S. equity market. Common stocks are purchased in the same capitalization weight as they appear in the S&P 500 Index.

Performance	Fund*	S&P 500 Index
<b>Thru 12/31/02:</b>		
One Year	-22.2%	-22.1%
Three Years	-14.6	-14.6
Five Years	-0.6	-0.6

\*Time-weighted rates of return, net of investment fees.

**Composition:**

Common Stocks	98.5%
Cash Equivalents/ S&P 500 Futures Contracts	1.5

**Major Sectors:**

Financials	20.3%
Health Care	15.0
Information Technology	14.2
Consumer Discretionary	13.4

**Largest Holdings:**

Microsoft	3.4%	Citigroup	2.2%
General Electric	3.0	Johnson & Johnson	2.0
Exxon Mobil	2.9	AIG	1.9
Wal Mart	2.8	IBM	1.6
Pfizer	2.3	Merck	1.6

**Portfolio Analysis:**

Portfolio Assets	\$16.4 B	Price/Earnings Ratio	17.6x
Number of Holdings	503	Price to Book	2.6x
Aver. Capitalization	\$76.4 B	Yield	1.8%

**Manager:** State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

**Annual Investment Fee:** Approximately 0.03%

# LARGE COMPANY GROWTH STOCK INDEX FUND

December 31, 2002

**Investment Objective:** The Large Company Growth Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Growth Index. Contributions to the Fund are invested in the State Street Global Advisors Russell 1000 Growth Index Strategy Fund.

**Investment Style:** The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Growth Index consists of the sub-category with growth characteristics. Growth characteristics consist of higher earnings and revenue increases as well as higher price to earnings ratios and price to book values.

Performance	Fund*	Russell 1000 Growth Index
<b>Thru 12/31/02:</b>		
One Year	-27.8%	-27.9%
Three Years	-23.6	-23.6
Five Years	-3.8**	-3.8

\*Time-weighted rates of return, net of investment fees.

\*\*Nebraska investment in Fund since July 1999.

**Composition:**

Common Stocks	98.3%
Cash Equivalents/ Russell 1000 Futures Contracts	1.7

**Major Sectors:**

Health Care	26.4%
Technology	22.3
Consumer Discretionary	14.6
Industrials	12.8

**Largest Holdings:**

General Electric	5.7%	Intel Corp	2.5%
Microsoft	5.5	Cisco Systems	2.3
Pfizer	4.5	Coca Cola	1.8
Johnson & Johnson	3.8	PepsiCo	1.8
Wal Mart	3.2	Merck	1.8

**Portfolio Analysis:**

Portfolio Assets	\$117.9 M	Price/Earnings Ratio	21.1x
Number of Holdings	578	Price to Book	3.9x
Aver. Capitalization	\$85.2 B	Yield	1.1%

**Manager:** State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

**Annual Investment Fee:** Approximately 0.05%

# LARGE COMPANY VALUE STOCK INDEX

December 31, 2002

**Investment Objective:** The Large Company Value Stock Index Fund seeks to replicate the returns and characteristics of the Russell 1000 Value Index. Contributions to the Fund are invested in the State Street Global Advisors Russell 1000 Value Index Strategy Fund.

**Investment Style:** The Russell 1000 Index represents the largest 1,000 U.S. stocks based on market capitalization. These stocks can further be classified as growth or value. The Russell 1000 Value Index consists of the sub-category with value characteristics. Value characteristics generally consist of lower price to earnings ratios and lower price to book values for stocks currently out of favor and/or stocks with lower forecasted growth rates.

<b>Performance:</b>	Fund*	Russell 1000 Value Index
<b>Thru 12/31/02:</b>		
One Year	-15.6%	-15.5%
Three Years	-5.2	-5.2
Five Years	1.1**	1.2

\*Time-weighted rates of return, net of investment fees.

\*\*Nebraska investment in Fund since July 1999.

**Composition:**

Common Stocks	99.0%
Cash Equivalents/ Russell 1000 Futures Contracts	1.0

**Major Sectors:**

Financials	33.2%
Consumer Discretionary	11.8
Energy	10.9
Industrials	8.6

**Largest Holdings:**

Exxon Mobil	5.7%	AIG	1.8%
Citigroup	3.6	Wells Fargo	1.8
BankAmerica	2.6	IBM	1.7
Verizon	2.6	Chevron Texaco	1.7
SBC Comm	2.2	Merck	1.3

**Portfolio Analysis:**

Portfolio Assets	\$393.1 M	Price/Earnings Ratio	14.6x
Number of Holdings	750	Price to Book	1.8x
Aver. Capitalization	\$52.2 B	Yield	2.6%

**Manager:** State Street Global Advisors is a subsidiary of State Street Bank and Trust Company located in Boston, Massachusetts.

**Annual Investment Fee:** Approximately 0.05%



## SMALL COMPANY STOCK FUND

December 31, 2002

**Investment Objective:** The Small Company Stock Fund's primary objective is capital appreciation through investment in domestic common stocks with small capitalization. This Fund in isolation involves high risk/reward characteristics. However, when used as a part of an overall investment plan, it provides additional diversification benefits. Contributions to the Fund are invested in the DFA Small Company Portfolio.

**Investment Style:** This Fund is focused on capturing the returns and diversification benefits of a broad cross-section of small U.S. companies. Equities purchased represent the smallest 8% of companies listed on the New York Stock Exchange, the NASDAQ National Market System and the American Stock Exchange combined (based on market capitalization).

<b>Performance:</b> <b>Thru 12/31/02:</b>			Russell 2000
		Fund*	Stock Index
	One Year	-19.5%	-20.5%
	Three Years	-2.1	-7.6
	Five Years	2.2	-1.4

\*Time-weighted rates of return, net of investment fees.

<b>Composition:</b>	Common Stocks	97.0%
	Cash Equivalents	3.0

<b>Major Sectors:</b>	Non-Durables	23.7%
	Financial	15.2
	Business Equipment	14.9
	Business Services	11.7

<b>Largest Holdings:</b>	Airgas Inc	0.21%	Great Lakes Chem	0.17%
	Covance Inc	0.19	Ametek Inc New	0.17
	Adtran Inc	0.19	Jefferies Group	0.17
	Neurocrine Bio	0.17	Heartland Express	0.17
	Graco	0.17	Arch Coal	0.17

<b>Portfolio Analysis:</b>	Portfolio Assets	\$783.0 M	Price/Earnings Ratio	15.9x
	Number of Holdings	3,501	Price to Book	1.45x
	Aver. Capitalization	\$605 M	Yield	0.92%

**Manager:** Dimensional Fund Advisors is located in Santa Monica, California.

**Annual Investment Fee:** Approximately 0.42%

# INTERNATIONAL STOCK FUND

December 31, 2002

**Investment Objective:** The International Stock Fund seeks long-term growth of capital through investments primarily in stocks of established companies based outside the United States. Contributions to the Fund are invested in the T. Rowe Price Foreign Equity Fund.

**Investment Style:** The Fund employs a blend of fundamentally based individual stock selection and general economic analysis of world economies to determine the relative attractiveness of various companies, sectors, and countries for portfolio construction.

		Fund*	MSCI EAFE Index
<b>Performance Thru 12/31/02:</b>	One Year	-17.5%	-15.9%
	Three Years	-18.6	-17.2
	Five Years	-3.6	-2.9

\*Time-weighted rates of return, net of investment fees.

<b>Country Diversification:</b>			
	Europe (ex-UK)	43.8%	Americas 2.4%
	UK	28.6	
	Japan	15.8	
	Pacific (ex-Japan)	8.3	

<b>Major Sectors:</b>	Financials	19.7%	Telecommunications 9.3%
	Consumer Discretionary	18.5	Industrials 7.8
	Health Care	12.5	Information Technology 7.1
	Energy	10.0	Materials 3.2
	Consumer Staples	9.6	Utilities 1.3

<b>Largest Holdings:</b>	GlaxoSmithKline	4.2%	Vodafone Group 2.6%
	Total Fina Elf	3.2	Nestle 2.5
	Reed Elsevier	3.2	BNP Paribas 1.8
	Royal Bank of Scotland	2.8	Sanofi-Synthelabo 1.6
	Shell T&T/Royal Dutch	2.7	Aventis 1.6

<b>Portfolio Analysis:</b>	Portfolio Assets	\$1.2 B	P/E Ratio 20.4x
	Number of Holdings	181	Number of Countries 30
	Avg. Capitalization	\$22.25 B	Emerging Markets 8.3%

**Manager:** T. Rowe Price International, Inc. is a subsidiary of T. Rowe Price Associates located in Baltimore, Maryland.

**Annual Investment Fee:** Approximately 0.76%

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# GLOSSARY



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## GLOSSARY

**Aggressive** – An investment strategy characterized by a willingness to accept above-average risk in pursuit of above-average returns. Usually favors stocks over bonds, especially stocks of rapidly growing companies, and sometimes employs buying on margin, options trading, and arbitrage.

**Asset** – Any item of economic value owned by an individual or corporation, especially that which could be converted to cash. Examples are cash, securities, accounts receivable, inventory, office equipment, a house, a car, and other property.

**Asset Allocation** – The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals.

**Balanced Fund** – A mutual fund that buys a combination of common stocks, preferred stocks, bonds, and short-term bonds, to provide both income and capital appreciation while avoiding excessive risk.

**Bankers Acceptances** - A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank.

**Bear Market** – A prolonged period of falling prices, usually by 20% or more, accompanied by widespread pessimism.

**Benchmark** – A standard, used for comparison.

**Book Value** – A company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill. Also, the value of an asset as it appears on a balance sheet, equal to cost minus accumulated depreciation. Book value often differs substantially from market price, especially in knowledge industries such as high-tech.

**Bull Market** – A prolonged period of rising prices, usually by 20% or more.

**Bonds** - A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing. The Federal government, states, cities, corporations, and many other types of institutions sell bonds. A bond is generally a promise to repay the principal along with interest on a specified date (maturity).

**Capital** – Net worth of an account.

**Cash Equivalents** – Highly liquid, very safe investments which can be easily converted into cash, such as Treasury Bills and money market funds.

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**Certificates of Deposit (CD)** – Short or medium term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. CDs offer higher rates of return than most comparable investments, in exchange for tying up invested money for the duration of the certificate's maturity. Money removed before maturity is subject to a penalty. CDs are low risk, low return investments, and are also known as “time deposits”, because the account holder has agreed to keep the money in the account for a specified amount of time, anywhere from three months to six years.

**Commercial Paper** – An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory. Maturities typically range from 2 to 270 days.

**Corporate Bonds** – A bond issued by a corporation.

**Diversified** – Containing a variety of investments which are unlikely to all move in the same direction.

**Dollar Cost Averaging** – An investment strategy designed to reduce volatility in which securities, typically mutual funds, are purchased in fixed dollar amounts at regular intervals, regardless of what direction the market is moving.

**Equities** – Same as stock.

**Fixed Income** – A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock.

**Growth Stock** – Stock of a company which is growing earnings and/or revenue faster than its industry or the overall market. Such companies usually pay little or no dividends, preferring to use the income instead to finance further expansion.

**Guaranteed Investment Contracts** – Debt instrument issued by an insurance company, usually in a large denomination, and often bought for retirement plans. The interest rate paid is guaranteed, but the principal is not.

**IRA** – A tax-deferred retirement account for an individual that permits individuals to set aside up to \$3,000 per year, with earnings tax-deferred until withdrawals begin at age 59 1/2 or later (or earlier, with a 10% penalty). Individuals who are at age 50 or older can set aside up to \$3,500 a year. Only those who do not participate in a pension plan at work or who do participate and meet certain income guidelines can make deductible contributions to an IRA. All others can make contributions to an IRA on a non-deductible basis. Such contributions qualify as a deduction against income earned in that year and interest accumulates tax-deferred until the funds are withdrawn.

**Inflation** – The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index.

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**Liquidity** – The ability of an asset to be converted into cash quickly and without any price discount.

**Market Risk** – Risk which is common to an entire class of assets or liabilities.

**Passive Bond** – Bond which is issued at a discount, pays no interest until maturity, and is redeemed at its full face value at maturity.

**Performance** – The results of activities of an organization or investment over a given period of time.

**Portfolio** – A collection of investments all owned by the same individual or organization.

**Preferred Stock** – Capital stock which provides a specific dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of liquidation.

**Preservation of Capital** – A conservative investment strategy characterized by a desire to avoid risk of loss.

**Price to Earnings Ratio** – The most common measure of how expensive a stock is. Equal to a stock's capitalization divided by its after-tax earnings over a 12-month period, usually the trailing period but occasionally the current or forward period. The value is the same whether the calculation is done for the whole company or on a per-share basis. Equivalently, the cost an investor must pay in a given stock per dollar of current annual earnings.

**Purchasing Power** – The value of money, as measured by the quantity and quality of products and services it can buy.

**Repurchase Agreements** – A contract in which the seller of debt securities, usually Treasury Bills, agrees to buy them back at a specified time and price.

**Risk Tolerance** – An investor's ability to handle declines in the value of his/her portfolio.

**Roth IRA** – A new type of IRA, established in the Taxpayer Relief Act of 1997, which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all.

**Security** – An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt or equity.

**Short-term** – Usually one year or less.

**Stability** – Absence of volatility; usually desirable. see also Banking Act of 1933, European Monetary System, fiscal policy.

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**Synthetic Investment Contract** – A variety of stable value products which substitute for GICs in defined contribution plans and offer book value participant withdrawals. The contract includes an asset ownership component and some form of book value “wrap,” maintaining participant accounts at book value. The assets backing the contract, usually high-grade securities, are owned by the plan and held in a trust account or custody account for the plan. The plan sponsor relies on the credit of the wrap issuer to support the book value guarantee.

**Tax Deferred** – Income whose taxes can be postponed until a later date. Examples include IRAs, 401(k)s, Keogh Plans, annuities, Savings Bonds and Employee Stock Ownership Plans.

**Time Deposits** – Savings account or CD held in a financial institution, usually a bank, for a fixed term or with the understanding that the customer can withdraw only by giving advanced notice.

**Under Performance** – An investment whose return has trailed that of other similar investments.

**Value Stock** – A stock that is considered to be a good stock at a great price, based on its fundamentals, as opposed to a great stock at a good price.

**Volatility** – The relative rate at which the price of a security moves up and down.

**Wrap Contract** – A contract that guarantees principal and accumulated interest, payment of an interest rate for a specified period of time, and participant-initiated withdrawals and transfers at book value. In synthetic GICs, the selection of the wrap provider is generally made separately from the selection of the investment management services for the underlying assets.

**Yield** – The annual rate of return on an investment, expressed as a percentage. For bonds and notes, it is the coupon rate divided by the market price. For securities, it is the annual dividends divided by the purchase price.